

THIS STATEMENT ONLY APPLIES TO MEMBERS OF THE UK DEFINED BENEFIT PENSION FUND

SUMI AGRO EUROPE LIMITED PENSION FUND **STATEMENT OF INVESTMENT PRINCIPLES**

1 Introduction

The Trustees of the Sumi Agro Europe Limited Pension Fund (“the Fund”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Fund’s investments.

As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer Limited (“Mercer”). The Trustees have also consulted Sumi Agro Europe Limited (“the Employer”), to ascertain whether there are any material issues that the Trustees should be aware in agreeing the Fund’s investment arrangements.

The investment responsibilities are governed by the Fund’s Trust Deed and this Statement takes full regard of its provisions. A copy of the relevant clauses is available for inspection upon request.

The Trustees will review this Statement at least every three years. The Statement will be amended more frequently should any changes be made to the Fund’s investment arrangements, or objectives. The Trustees are committed to maintaining the accuracy of this Statement on an ongoing basis.

2 Process for Choosing Investments

The process for choosing investments follows the identification of appropriate investment objectives, including the funding objective, target expected return from the Fund’s assets and the appropriate level of risk.

In considering the appropriate investments for the Fund the Trustees have obtained and considered the written advice of Mercer, whom the Trustees believe to be suitably qualified to provide such advice.

3 Investment Objectives

The Trustees’ objective is to invest the Fund’s assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustees’ primary objectives are as follows:

- To ensure the obligations to the beneficiaries of the Fund can be met.

- To pay due regard to the Employer's requirements with regards to the size and incidence of contribution payments.

Additional objectives are as follows:

- To achieve full funding on the Fund's Technical Provisions funding basis;
- To target an appropriate expected return from the Fund's assets (which is currently approximately 1.45% p.a. in excess of gilts); and
- To maintain a diversified portfolio of assets of appropriate liquidity to minimise risk, as far as practicable, given the targeted level of expected return.

4 Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Fund's assets and its liabilities.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, as well as producing more short-term volatility in the Fund's financial position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Fund's assets, and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

The Trustees also take into account the following risks attached to the investment of the Fund's assets:

- **Interest rate risk** exists if the projected cash flow profile of the assets held differs from that of the projected liabilities.
- **Inflation risk** exists if the projected cashflows from the assets have different linkages to inflation from the projected liabilities.
- **Credit risk** reflects the possibility that the payments due under a bond might not be made by the issuer, and similarly that the dividends expected from an equity investment might not be paid.
- **Currency risk** will arise through investment in non-Sterling assets, given that the Fund's liabilities are denominated in Sterling, because changes in exchange rates will impact the relative value of the assets and liabilities.
- **Volatility risk** concerns the stability of the market value of assets (such as equities), where the price achievable may be particularly affected by short term sentiment and is not certain until the point of sale.

- **Regulatory risk** arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.
- **Liquidity risk** arises from holding assets that are not readily marketable and realisable.
- **Concentration risk** arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers.

The Trustees also consider the balance between active and passive management, in asset classes where passive management is a practicable option. In determining this balance, the Trustees consider whether active management offers sufficient potential to outperform to justify the additional risks and fees compared with passive management.

The documents governing the investment manager appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The investment manager is prevented from investing in asset classes outside of their mandate without the Trustees' prior consent.

Arrangements are in place to monitor the Fund's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from the investment manager.

5 Portfolio Construction

The Trustees have adopted the following control framework in structuring the Fund's investments subject to the overriding constraint that at the total Fund level the expected level of risk is consistent with that detailed in Section 3:

- There is a role for both active and passive management. Passive management will be used for one of a number of reasons, namely:
 - To diversify risk
 - Invest in markets deemed efficient where the scope for active management to add value is limited
 - As a temporary home pending investment with an active manager
- All other things being equal there is a preference to invest via pooled funds.
- The Trustees regularly review the continuing suitability of the Fund's investments, including the appointed manager and the balance between active and passive management, which may be adjusted from time to time. However any such adjustments would be done with the aim of ensuring the overall level of expected risk and return is consistent with that being targeted as set out in Section 3.
- No investment in securities issued by the Employer or affiliated companies (other than any such securities held within a pooled fund in which the Trustees invest – to the extent permitted under Section 40 of the Pensions Act 1995 relating to Employer Related Investments).

- No investment by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustees invest).

6 Investment Strategy

The Fund's target investment strategy is detailed in the table below:

	Benchmark Allocation (%)
Growth Assets	30.0
Equities	15.0
Diversified Growth Funds	15.0
Matching Assets	70.0
Long Dated Corporate Bonds	25.0
Index-Linked Gilts	45.0
Total	100.0

7 Day-to-Day Management of the Assets

The main assets of the Fund are held in the form of an insurance policy with Legal & General Assurance (Pensions Management) Limited. The investment of the assets under the policy has been delegated to Legal & General Investment Management Limited ("LGIM").

The Trustees have taken steps to satisfy themselves that LGIM has the appropriate knowledge and experience for managing the Fund's investments and that they are carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which LGIM may operate. This is set out in the following table.

LGIM Fund	Benchmark Allocation (%)	Control Ranges (%)	Benchmark Index	Performance Target
Growth Assets	30.00	± 2.50		
UK Equity Index Fund	4.50	± 0.50	FTSE All-Share	Track Index within ± 0.25% p.a. for two years in three
North America Equity Index Fund – GBP Currency Hedged	5.25	± 0.75	FTSE AW Developed North America (GBP Hedged)	Track Index within ± 0.5% p.a. for two years in three
Europe (ex-UK) Equity Index Fund – GBP Currency Hedged	1.95	± 0.50	FTSE AW Developed Europe (ex UK) (GBP Hedged)	Track Index within ± 0.5% p.a. for two years in three
Japan Equity Index Fund – GBP Currency Hedged	1.05	± 0.50	FTSE AW Japan (GBP Hedged)	Track Index within ± 0.5% p.a. for two years in three
Asia Pacific (ex-Japan) Equity Index Fund – GBP Currency Hedged	1.05	± 0.50	FTSE AW Developed Asia-Pacific (ex Japan) (GBP Hedged)	Track Index within ± 0.75% p.a. for two years in three
World Emerging Markets Equity Index Fund	1.20	± 0.50	FTSE AW - All Emerging Markets	Track Index within ± 1.5% p.a. for two years in three
Dynamic Diversified Fund	15.00	± 1.50	Bank of England Base Rate	Outperform the benchmark by 4.5% p.a. over a market cycle
Matching Assets	70.00	± 2.50		
AAA-AA-A Fixed Interest - Over 15 Year - Index	25.00	± 1.50	iBoxx £ Non-Gilts (ex-BBB) Over 15 Year Index	Track Index within ± 0.5% p.a. for two years in three
All Stocks Index-Linked Gilts Index Fund	45.00	± 2.25	FTSE A Index-Linked (All Stocks) Index	Track Index within ± 0.25% p.a. for two years in three
Total	100.00			

8 Expected Return

The Trustees currently expect the Fund's investment policy to generate a long term return of approximately 1.45% p.a. over gilts.

9 Cashflows and rebalancing

The Trustees currently have a benchmark letter in place with LGIM which states that investments / disinvestments of monies will be made in such a way as to maintain the Fund's assets as close as practicable to the central benchmark asset allocation. LGIM currently monitor the asset allocation against the control ranges set on a weekly basis, and will take appropriate action to rebalance the assets should the need arise.

10 Realisation of Investments

The investment manager has discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustees review this from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

11 Fee Structures

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management. The Fund Actuary and the Investment Consultant typically work on the basis of time cost; however, in certain circumstances a fixed fee will be agreed.

12 Socially Responsible Investment and Corporate Governance

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustees expect the Fund's investment managers to evaluate ESG factors, including climate change considerations, when making investment decisions. The Trustees also expect the relevant investment managers to exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented periodically.

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

The Trustees do not explicitly consult members when making investment decisions.

13 Investment Manager Arrangements

Aligning manager appointments with investment strategy

When engaging with investment managers to implement the Trustees' investment strategy outlined above, the Trustees are concerned that, as appropriate and to the extent applicable, the investment managers are incentivised to align their strategy and decisions with the Fund's objectives.

However, as the Fund is only invested in multi client pooled funds, the Trustees accept that they do not have the ability to determine the risk profile and return targets of specific funds. The Trustees are able to make investment manager appointments in such a

manner that the assets are managed consistent with the Fund's overall investment strategy. The investment managers are incentivised by the knowledge that the Trustees will review their appointment if, over time, they do not meet expectations

The investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

The Trustees look to their Investment Consultant for their forward looking assessment of a manager's ability to outperform over a full market cycle, for mandates where outperformance is the objective. This view will be based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Fund invests in. The Investment Consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from their Investment Consultant in relation to their forward-looking assessment of the manager's ability to achieve the stated mandate objectives.

If the investment objective for a particular manager's fund changes, the Trustees will review the fund appointment, with the Investment Consultant's assistance, to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Incentivisation and Medium/Long-Term Decision Making

The Trustees do not have a policy about making investment decisions based on their assessment of the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the investment managers, where applicable. These managers may be in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustees do however consider the Investment Consultant's assessment of how each investment manager integrates ESG and stewardship into their investment process. Further detail can be found in Section 12.

Evaluation and remuneration

The Trustees receive investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year, 3 years and since inception. The Trustees review the performance of the investments on an absolute basis and relative to pre-defined benchmarks (over the relevant period) on a net of fees basis. The Trustees maintain a focus on long term performance. They may review a manager's appointment if the manager has extended periods of underperformance, there is a material change in personnel or there are developments that may severely impact the outcome of the investment.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

The Trustees may meet with investment managers if they are dissatisfied with their performance or engagement activity, and may choose to terminate the relationship with the manager if they see fit.

Portfolio turnover costs

The Trustees do not currently monitor portfolio turnover and associated transaction costs in respect of the Fund and have no set portfolio turnover targets. Instead, the Trustees assess investment performance net of the impact of the costs of such activities.

Duration of investment arrangements

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis. There is no set duration for the manager appointments. The Trustees will retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager; or
- The manager appointment has been reviewed and the Trustees have decided to terminate the mandate.

14 Custodian

The role of the custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment manager(s).

In respect of the assets managed by LGIM, the Fund holds units in pooled funds rather than direct investment in the underlying assets managed by LGIM. The safe custody of the Fund's assets has therefore been delegated to LGIM who have their own appointed custodians for the safe keeping of the assets.

15 Additional Voluntary Contributions (AVCs)

Some members have additional benefits held in AVC accounts with Utmost Life and Pensions.

16 Compliance with this Statement

On a regular basis, the Trustees will review this Statement in response to any material changes to any aspect of the Fund, its liabilities, finances and the attitude to risk of the Trustees and the Employer, which is judged to have a bearing on the stated investment policy. Any such review will again be based on expert investment advice and will be in consultation with the Employer.

**On behalf of the Trustees of the Sumi Agro Europe Limited Pension Fund
September 2020**